



# STATE BUDGET UPDATE

More Big Challenges Ahead

July 2014

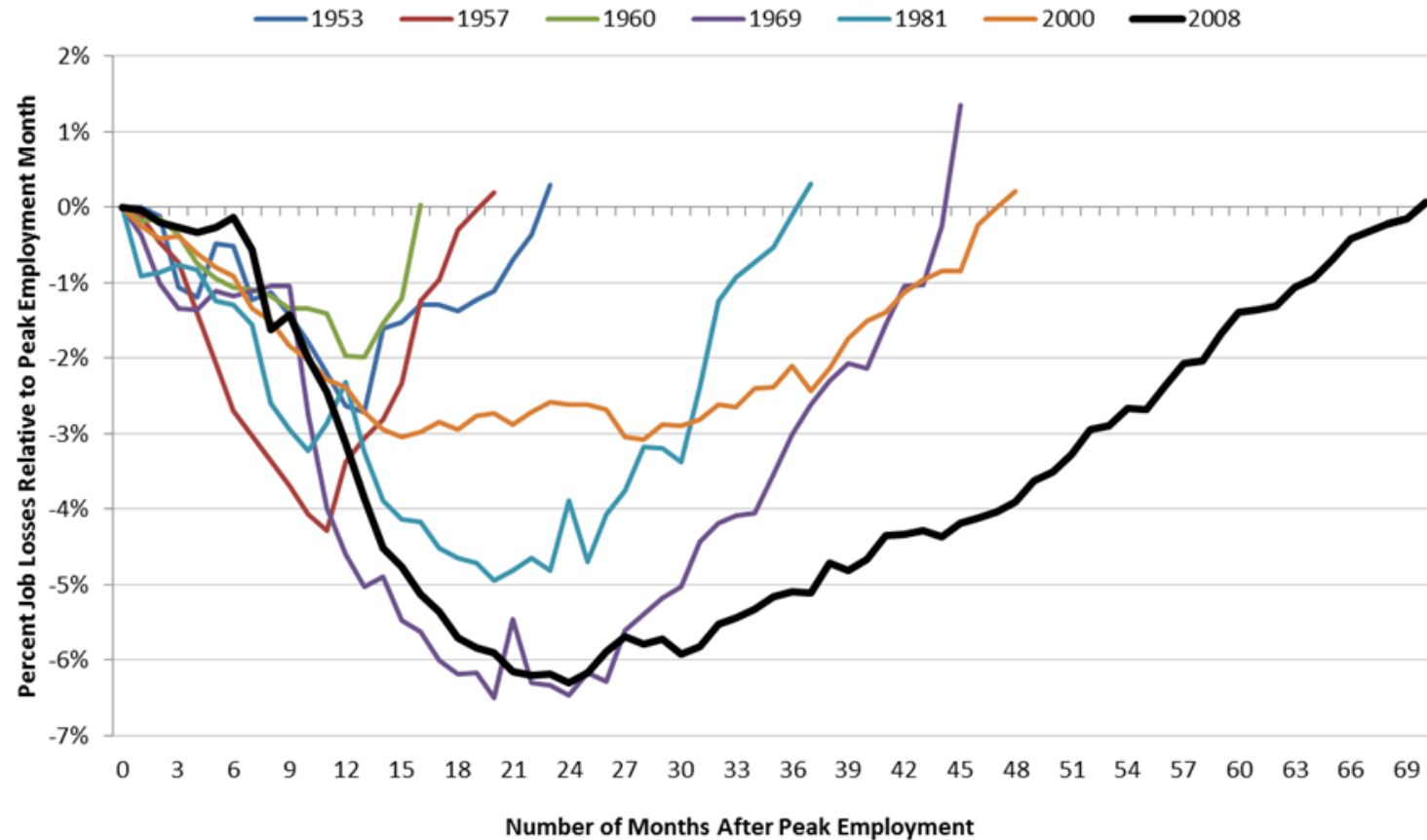
OFFICE OF

**F**INANCIAL **M**ANAGEMENT

***Washington's economy is rebounding ...  
but at a very slow pace***

# It took more than 5 years to recover all the jobs lost during the Great Recession

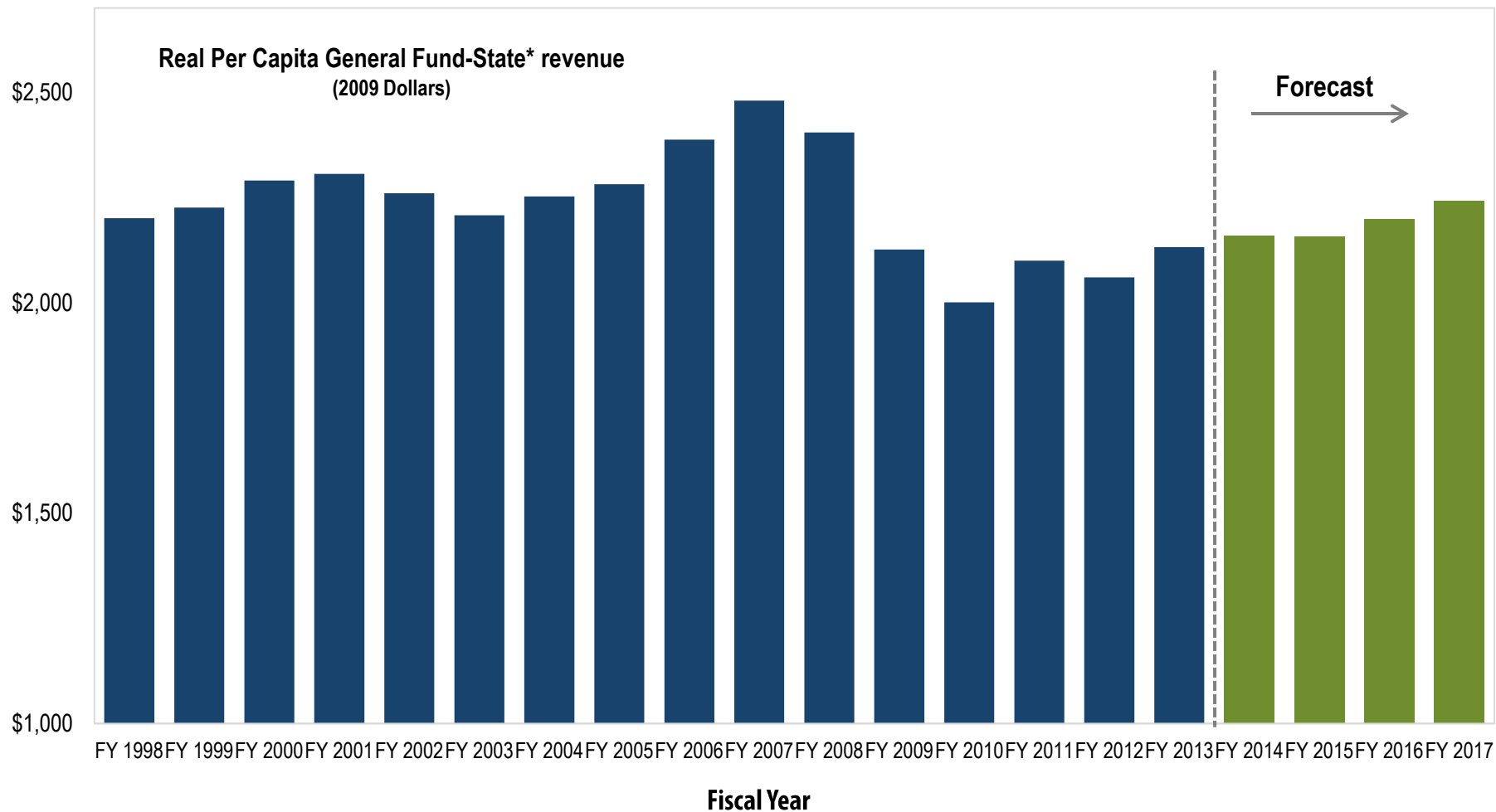
Figure 1: Job Losses and Duration of Post WW2 Recessions in Washington



Major labor management disputes are removed for clarity

***State revenue collections are also rebounding, but at a much slower pace than after previous recessions***

# Projected real per capita revenue growth is relatively flat



\*Reflects General Fund and related funds for fiscal years 1995–2009; General Fund, new definition for fiscal years 2010–17

Washington State Economic and Revenue Forecast Council

***Looking ahead to the 2015–17 budget ...  
It could be more challenging than the  
2013–15 budget***

# ***Why will the 2015–17 budget be so difficult?***

We solved 2013–15 budget shortfall largely by relying on solutions not available again. For example, we:

- Redirected \$387 million in capital budget — including \$277 million from the Public Works Trust Account — to cover operating expenses.
- Captured \$351 million in savings by expanding Medicaid under the Affordable Care Act.
- Raised \$272 million by temporarily extending the hospital safety net assessment.

We also were helped by good news in June 2013 forecasts — \$230 million in additional revenue and \$229 million in caseload savings.

The budget includes new revenue — \$159 million from the estate tax (Bracken) fix and \$99 million in telecom reform savings.

***Even after all that, we once again needed to suspend teacher COLAs, and did not provide state employee pay raises***

***And still we fell short of our \$1.5 billion target for meeting our basic education obligation***



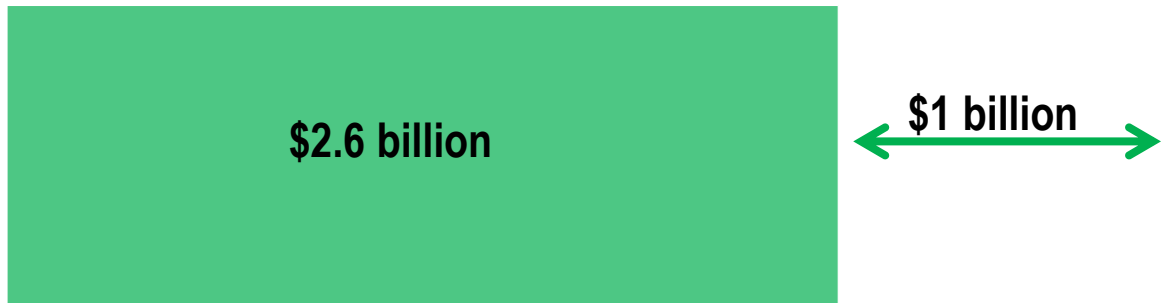
***Barring an unforeseen dramatic rise in economic activity and revenue collections, we will face another sizable shortfall when we begin work on the 2015–17 budget***

***State revenue collections are expected to grow  
by more than \$2.5 billion ... What's the  
problem?***

# Preliminary 2015–17 Operating Budget Outlook

Near General Fund (GF-State, Education Legacy Trust Account,  
Opportunity Pathways Account)

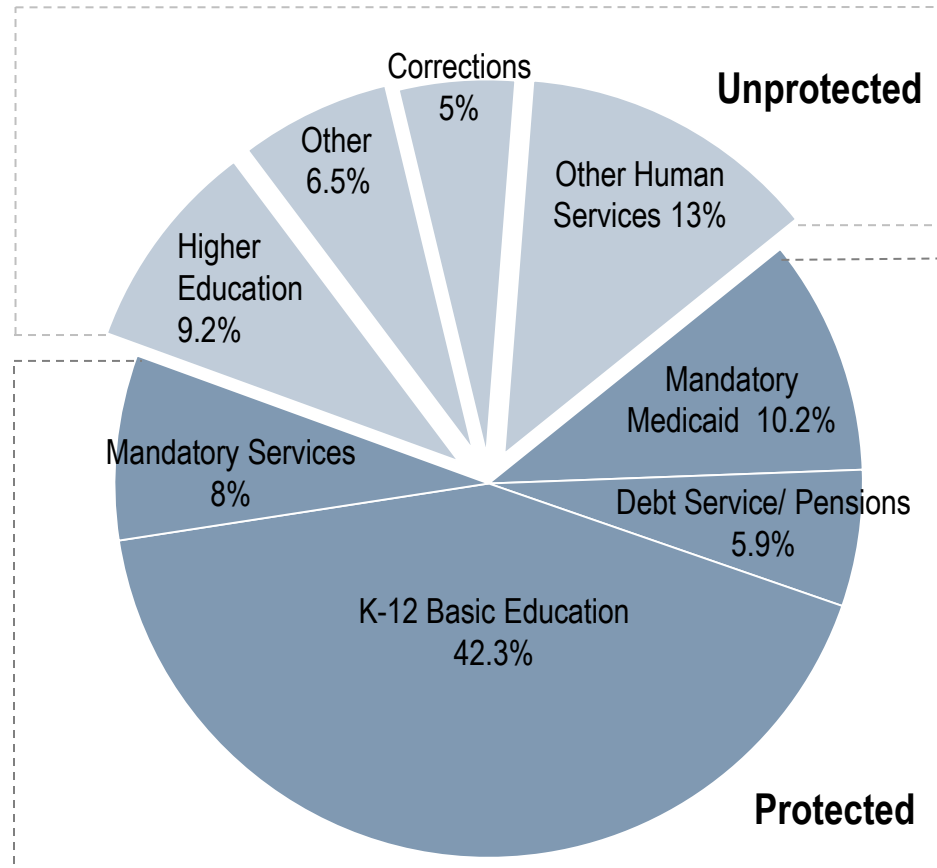
## Projected Additional Revenue



## Projected Additional Spending Needs

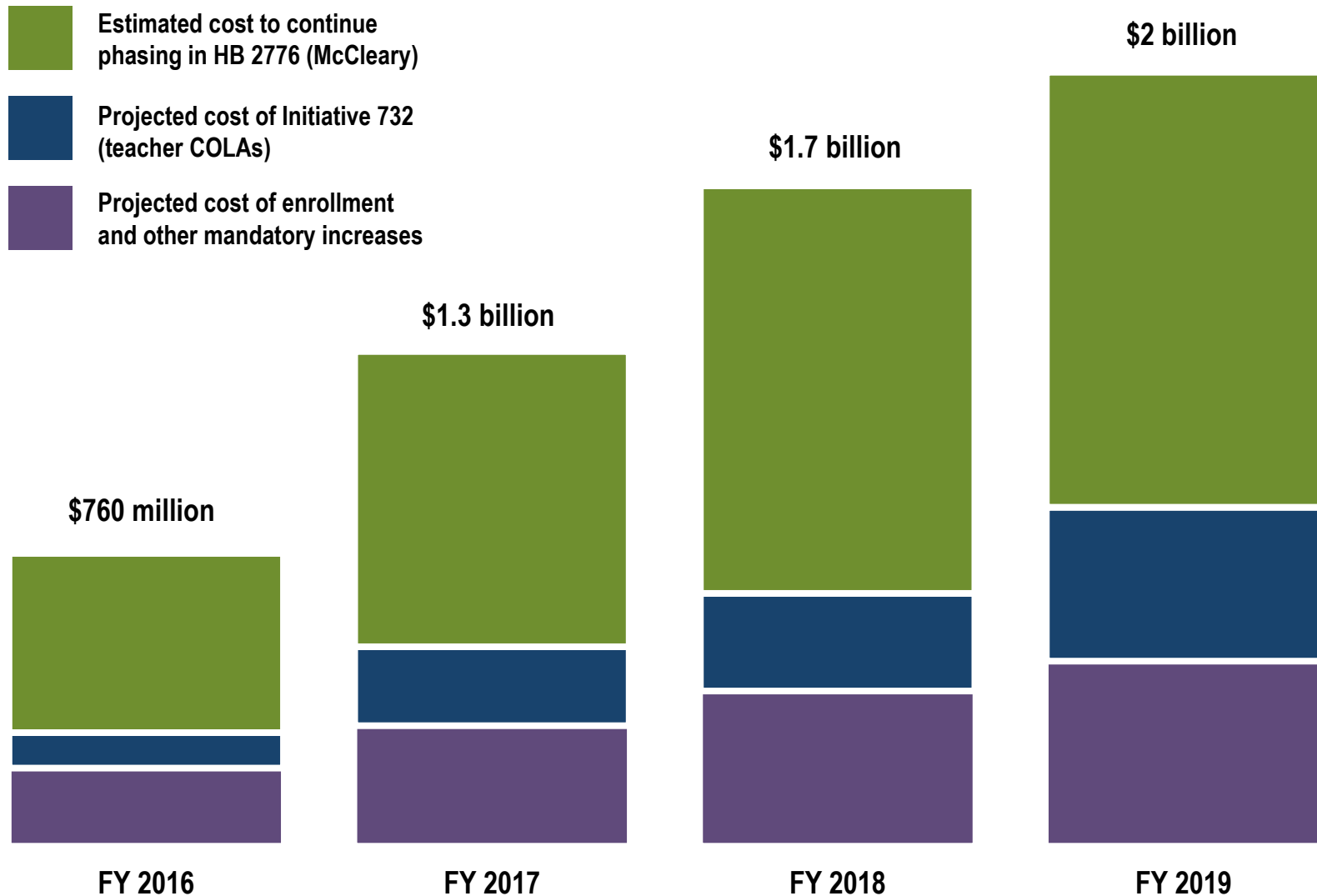
<b>Maintenance &amp; Carry Forward</b> <b>Estimated \$1.7 billion</b>  Includes <b>\$647M</b> to continue FY 2015 appropriation level. Maintenance level estimate includes: <ul style="list-style-type: none"><li>• <b>\$175M</b> low-income health care</li><li>• <b>\$215M</b> K-12 education</li><li>• <b>\$150M</b> mental health, DD, long-term care</li></ul>	<b>\$432M</b> pension costs	<b>\$200M</b> debt service	<b>\$308M</b> employee health care	<b>\$321M</b> I-732 COLA	<b>Policy Enhancements</b> <b>\$600M</b> includes: <ul style="list-style-type: none"><li>• early learning</li><li>• higher education</li><li>• state employee and higher education salaries</li><li>• all other policy enhancements</li></ul>	<b>\$1.2 billion –\$2 billion</b> McCleary
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**About 2/3 of the budget is protected by constitutional and federal requirements . . .  
So we must look to the other 1/3 for savings**

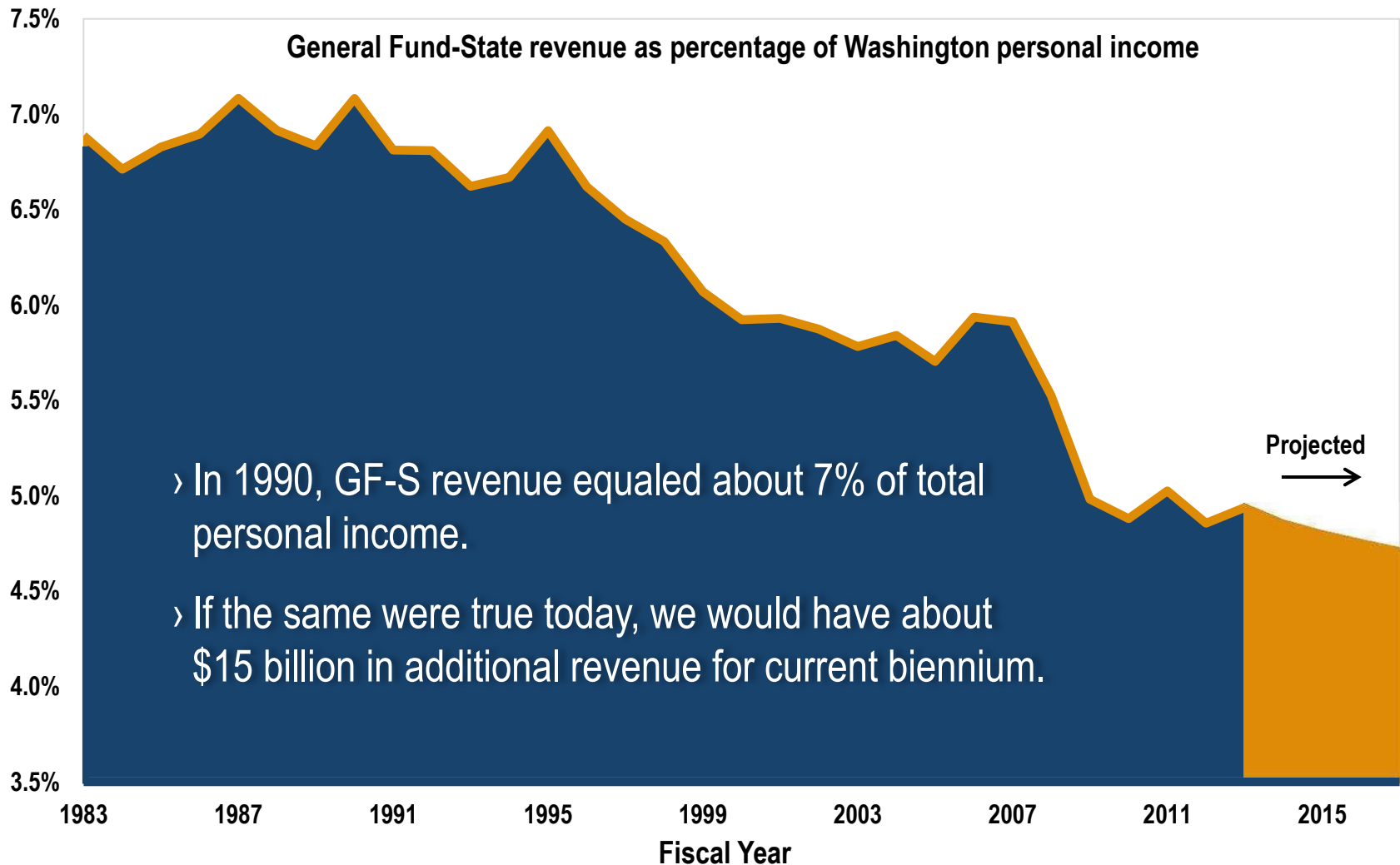


***Some perspective on the  
structural problem we face in Washington***

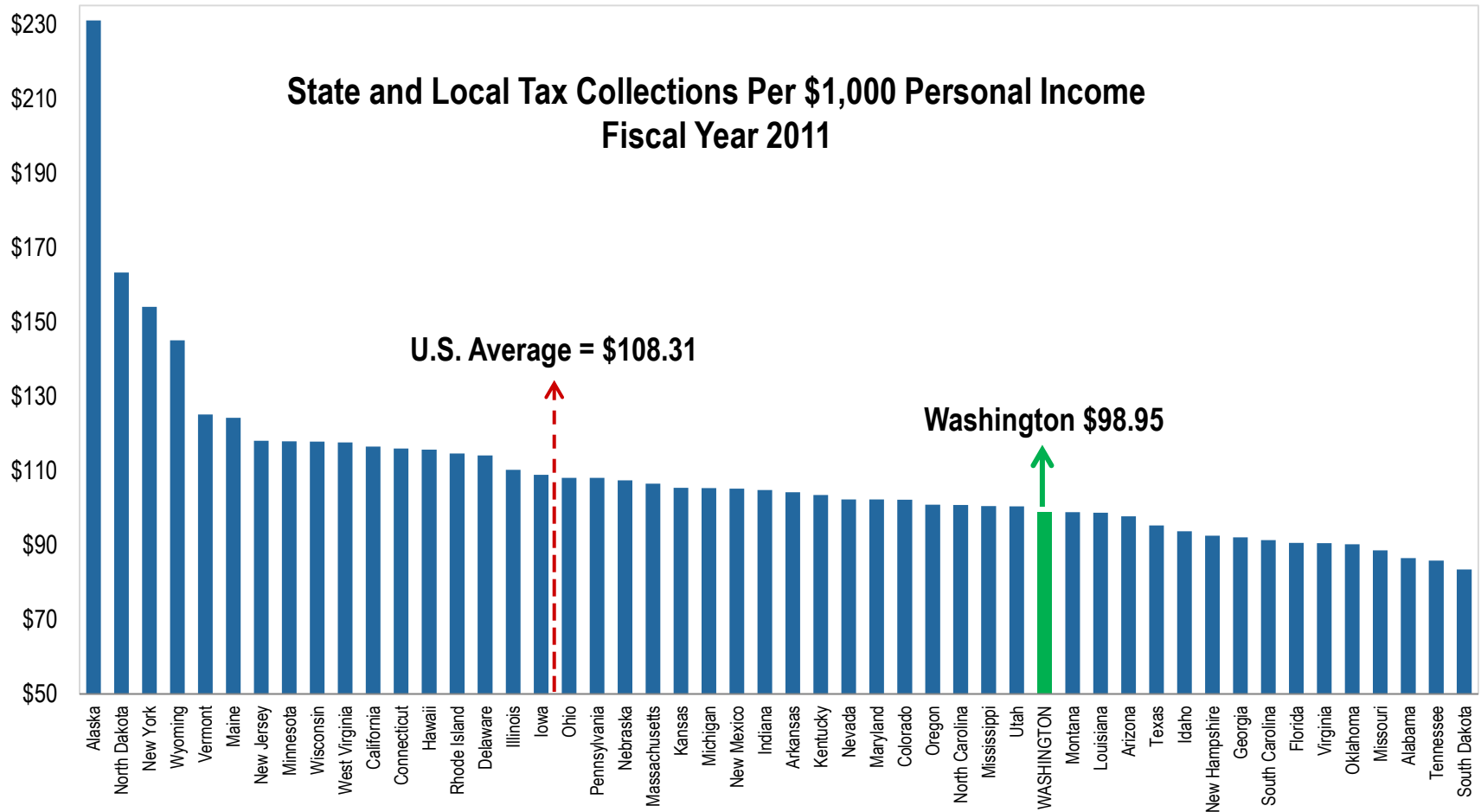
# Meeting our basic education obligation — \$5.7 billion needed over next 2 biennia



# *Revenue collections are at historically low levels when compared to overall economy*



# *In 1995, Washington ranked 11<sup>th</sup> in state and local tax collections ... By 2011, we ranked 35<sup>th</sup>*



Source: Bureau of Economic Analysis and Census Bureau  
U.S. Department of Commerce